

MUNICIPAL INCOME TAX REVENUE

The following schedule shows budgeted and actual municipal income tax revenue for each fiscal year from 1995 to 2002. The schedule also shows budgeted revenue and projected revenue (based on actual year-to-date revenues) for the fiscal year ending June 30, 2003, and municipal income tax revenue in the 2003-2004 Mayor's Proposed Budget.

In Thousands						
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/ (Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1994-1995	\$296,300	\$312,710	\$16,410	5.5 %	\$15,822	5.3 %
1995-1996	327,850	335,755	7,905	2.4	23,045	7.4
1996-1997	337,600	332,900	(4,700)	(1.4)	(2,855)	(0.9)
1997-1998	351,500	361,604	10,104	2.9	28,704	8.6
1998-1999	368,000	370,417	2,417	0.7	8,813	2.4
1999-2000	379,900	378,257	(1,643)	(0.4)	7,840	2.1
2000-2001	387,400	341,004	(46,396)	(12.0)	(37,253)	(9.8)
2001-2002	384,800	323,516	(61,284)	(15.9)	(17,488)	(5.1)
2002-2003 (A)	323,500	311,000	(12,500)	(3.9)	(12,516)	(3.9)
2003-2004 (B)	300,400	N/A	N/A	N/A	N/A	N/A

- (A) The amount shown in the schedule as actual revenue for 2002-2003 is a Budget Department projection based on actual year-to-date municipal income tax revenue as of March 14, 2003, and an adjustment for weekly changes in collections over the last year.
- (B) The budgeted amount is the only figure available for fiscal year 2003-2004. The other amounts are designated N/A (Not Available) in the schedule.

Reduction in Income Tax Rates for 2003-2004

In accordance with Public Act 500 of 1998, the municipal income tax rates will be reduced by one-tenth of a percentage point per year for residents and one-twentieth of a percentage point for non-residents over a ten-year period, until the rates are 2.0% and 1.0% respectively¹. For fiscal year 2003-2004, the income of residents and nonresidents will be taxed at the rate of 2.5%, and 1.25%, respectively. The current municipal income tax rate for corporations is 1.2%. The municipal income tax rate for corporations will be reduced to 1.0% on January 1, 2004.

Some attempts to quantify the effect of the income tax rate reduction in terms of foregone revenue have been made. The estimate of foregone revenue provided by the Citizens Research Council (CRC) of Michigan and the Budget Department are detailed below.

The Citizens Research Council of Michigan indicated that each one-tenth of a percentage point reduction in the tax rate results in a reduction in revenue of about \$12 million, ignoring any growth in the tax base. The CRC estimate was developed using the assumption that the effects of the income rate reductions for both residents and non-residents should be included in the

¹ Before Public Act 500 of 1998 was enacted into law, the municipal income tax rates were 3% for residents, 1.5% for nonresidents, and 2% for corporations.

analysis since Public Act 500 of 1998 requires the rate reductions. Since the Act does not require reductions in the income tax rate for corporations, the effect of the rate reduction was not included in the CRC estimate of foregone revenue.

The 2003-2004 Mayor's Budget Message included a statement that the decrease in the income tax rate will cost \$15 million this year. The Budget Department estimate was developed based on the assumption that the effects of all income rate reductions, i.e., resident, non-resident, and corporations, should be included in the Budget Department estimate of foregone revenue.

Other Factors Influencing Municipal Income Tax Revenue

In general, the national economic slowdown affected manufacturing and auto-based economies to a greater degree than the nation. The economic slowdown and the resultant increase in the City's unemployment rate also contributed to the decline in municipal income tax revenue in recent years. The City's unemployment rate increased from 10.2% in July 2001 to 13.9% in July 2002 (most recent data available).

Conditions Giving Rise to a Suspension in Rate Reductions

The previous schedule highlighted the decline in municipal income tax revenue in recent years. Based on the combined effects of the income tax rate reductions, economic slowdown, and local unemployment, this decline in municipal income tax revenue is expected to continue in fiscal year 2003-2004.

A local economist predicted an income tax growth rate of zero for fiscal year 2003-2004. Public Act 500 of 1998 (Chapter 141.503, Section 3(3) of the Michigan Compiled Laws) includes a provision for the suspension of the rate reductions if any three of the following conditions exist:

- a) Funds have been withdrawn from the city's budget stabilization fund for 2 or more consecutive city fiscal years or there is a balance of zero in the city's budget stabilization fund;
- b) The city's income tax revenue growth rate is 0.95 or less;
- c) The local tax base growth rate is 80% or less of the statewide tax base growth rate; and
- d) The city's unemployment rate is 10% or higher according to the most recent statistics available from the Michigan Jobs Commission.

Projected Municipal Income Tax Revenue for Fiscal Year Ending June 30, 2003

Income tax revenue can be difficult to predict due to various economic factors (e.g., economic conditions, population changes over time, employment levels, and changes in taxpayer incomes) that directly affect the City's income tax revenue. As shown in the previous schedule, actual income tax revenue has been both under (in five fiscal years) and over (in four fiscal years) the budget estimates for the past nine years, ranging from (\$61.3) million under budget in 2002 to \$16.4 million over budget in 1995.

The Budget Department projects actual municipal income tax revenue of \$311.0 million for the fiscal year ending June 30, 2003, an amount that is \$12.5 million (or 3.9%) less than the budgeted amount. Based on our analysis, the projected amount appears reasonable.

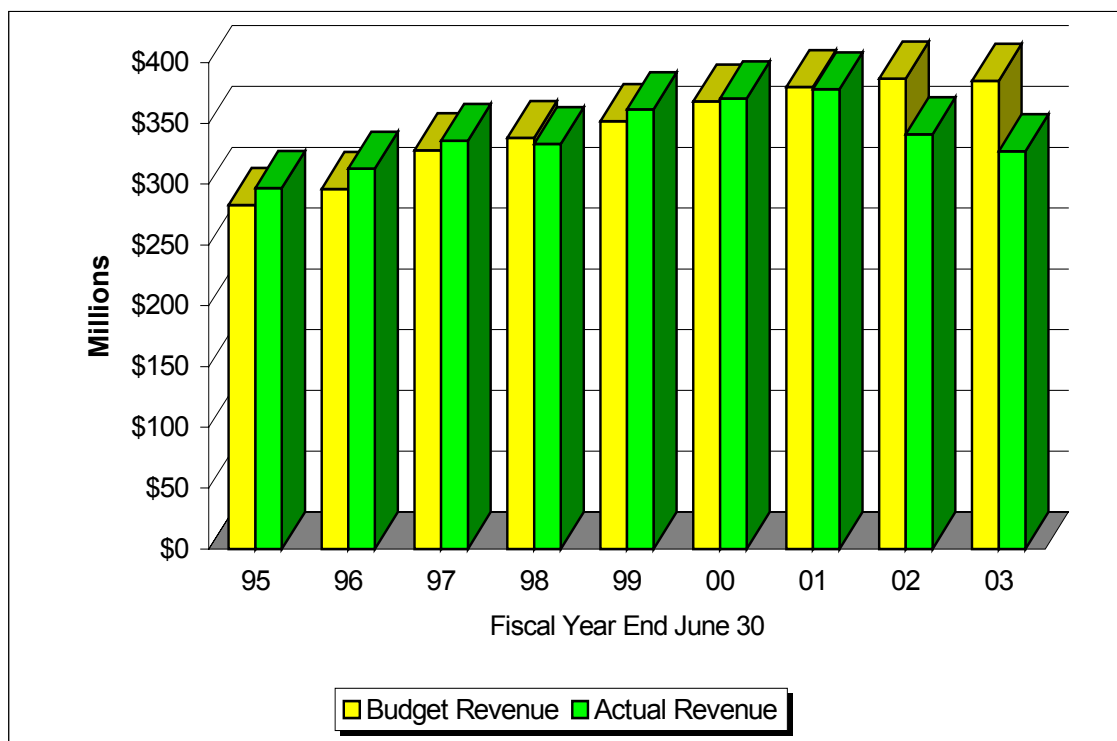
Municipal Income Tax Revenue in 2003-2004 Mayor's Proposed Budget

The 2003-2004 Mayor's Proposed Budget includes municipal income tax revenue of \$300.4 million. This is \$23.1 million (or 7.1%) less than the \$323.5 million included in the FY 2002-2003 budget, and \$10.6 million (or 3.4 %) less than the \$311.0 million projected for the same period. Based on our analysis, the projected amount appears reasonable.

Current Developments

The strategy to contract out the collection of delinquent income taxes and property taxes is expected to result in the realization of additional municipal income tax revenue. The 2003-2004 Mayor's Proposed Budget includes revenues of \$10.7 million for prior year municipal income tax revenue, an increase of \$10.7 million from the prior budget. The inclusion of this revenue in the 2003-2004 Mayor's Proposed Budget is linked to the approval of the contract for external tax collection services.

The following chart highlights the changes in budgeted and actual municipal income tax revenue for nine fiscal years.



STATE REVENUE SHARING

State Revenue Sharing is the process by which a portion of certain tax revenues imposed and collected by the State of Michigan is distributed to local units of government, including municipalities, as provided by State law. Currently, the State shares a portion of sales tax with other local governments.

On January 12, 1999, the Governor signed House Bill No. 5989, thereby creating Public Act 532 of 1998, which changed the method for determining State Revenue Sharing payment amounts. In accordance with Public Act 532, the City of Detroit was to receive a total of \$333.9 million in State Revenue Sharing payments each year, from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine-month period from October 1, 2006 to June 30, 2007. Public Act 532 does not contain any requirement for the State to maintain State Revenue Sharing payments to the City of Detroit in exchange for the reduction of the City of Detroit income tax rates for residents, nonresidents, and corporations as required by Public Act 500 of 1998, which amends Public Act 284 of 1964.

Public Act 532 specifies that for a State fiscal year (October 1 to September 30) in which the sales tax collections decrease from the sales tax collections for the immediately preceding State fiscal year, the City will receive a proportionally reduced amount of revenue sharing payments. This provision has never been used, as the State of Michigan's sales tax revenue has steadily increased for all years relevant to this act. The following schedule shows the State's sales tax revenues for the State's fiscal years 1996-1997 through 2001-2002, as well as the State's estimates for fiscal years 2002-2003 and 2003-2004.

<u>Fiscal Year</u>	<u>Sales Tax Revenue (in millions)</u>	<u>Percent Change</u>
1996-1997	\$ 5,390	
1997-1998	5,617	4.2%
1998-1999	5,902	5.1%
1999-2000	6,278	6.4%
2000-2001	6,352	1.2%
2001-2002	6,440	1.4%
2002-2003 (Estimate)	6,604	2.6%
2003-2004 (Estimate)	6,953	5.3%

In December 2002, in order to maintain a balanced state budget, the Governor issued Executive Order No. 2002-22, which slashed state revenue sharing payments by 3.5% across the board for the State's 2002-2003 fiscal year. Detroit's share of the reduction totaled \$11.7 million, and reduced its portion of state revenue sharing dollars to \$322.2 million. Because the amount of Detroit's state revenue sharing payment is established by law, the Michigan Legislature was required to enact Public Act 679 of 2002 to effect the 3.5% reduction on the City of Detroit.

The Governor's 2004 Executive Budget recommends State Revenue Sharing payments to Detroit of \$312.5 million, a \$9.7 million (3%) reduction from the \$322.2 million in fiscal year 2002-2003. Based upon the provisions of Public Act 679, and discussions with State economists, the total \$312.5 million estimated budget amount for State Revenue Sharing is reasonable, if the Governor's recommended 2004 Executive Budget and supporting legislation amending Public Act 679 are adopted.

The State Revenue Sharing payments included in the 2003-2004 Mayor's Proposed Budget is compared to the 2002-2003 Budget in the following schedule:

	In Millions		
	2003-2004 Mayor's <u>Budget</u>	2002-2003 <u>Budget</u>	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 64.0	\$ 65.0	\$ (1.0)
State Sales Tax – Statutory Portion	<u>246.7</u>	<u>267.0</u>	<u>(20.3)</u>
Total State Revenue Sharing, City Portion	\$ 310.7	\$ 332.0	\$ (21.3)
 Detroit Public Library and DDA	 <u>1.8</u>	 <u>1.9</u>	 <u>(0.1)</u>
Total State Revenue Sharing	<u>\$ 312.5</u>	<u>\$ 333.9</u>	<u>\$ (21.4)</u>

State Revenue Sharing Revenues contained in the Mayor's 2003-2004 Proposed Budget are \$21.4 million less than the amount budgeted for 2002-2003. The 2002-2003 budget above has not been adjusted for the \$11.7 million reduction to \$322.2 million made by the State legislature in December 2002. The \$21.4 million decrease in both the constitutional and statutory portions is due to current and pending State Revenue Sharing payment reductions.

The total budgeted revenue of \$312.5 million for State Revenue Sharing includes constitutional and statutory payments. The constitutional portion of State Revenue Sharing is determined by the State Constitution; the statutory portion of State Revenue Sharing is determined by the Governor and the State legislature. The constitutional portion of State Revenue Sharing payments for 2003-2004 is based on the adjusted 2000 City of Detroit census figure of 949,231¹.

Public Act 532 also provides that the treasurer of any city, village, township, or county who collects money for an authority that levies property taxes shall pay an eligible authority its share of state revenue. Therefore, the City is required to pay \$1.8 million to the Detroit Public Library and \$65,524 to the Downtown Development Authority (DDA) from the \$312.5 million in State Revenue Sharing for the 2003-2004 State fiscal year. These amounts have decreased from the previous year, proportionate to the overall decrease in State Revenue Sharing payments to the City.

¹ The Revenue Sharing Act requires that 50 percent of the institutional population (mostly prisoners) be deducted from the official Census population of 951,270.

PROPERTY TAX REVENUE

Property Tax Revenue includes the collection of current taxes on both real property (i.e., real estate) and personal property (e.g., machinery and equipment). Revenue generated from the collection of delinquent property taxes is not considered in this analysis.

Taxable valuations, tax levies, and tax rates (not including the Library) applicable to the 2003-2004 Mayor's Proposed Budget are compared with the 2002-2003 Budget and the 1993-1994 Budget (to provide a historical perspective) as follows:

	<u>1993-1994 Budget</u>	<u>2003-2004 Mayor's Budget</u>	<u>2002-2003 Budget</u>	<u>2003-2004 More/(Less) Than 2002-2003</u>
Taxable Valuations (Millions)	<u>\$ 5,815.4</u>	<u>\$ 7,907.4</u>	<u>\$ 7,976.0</u>	<u>\$ (68.6)</u>
<u>Tax Levies (Millions):</u>				
General Operations	\$ 116.3	\$ 157.8	\$ 159.2	\$ (1.4)
Garbage Tax	17.5	23.7	23.9	(0.2)
Debt Service	36.0	64.0	63.2	0.8
Building Authority Lease Payment	6.9	-	-	-
Total Tax Levy	<u>\$ 176.7</u>	<u>\$ 245.5</u>	<u>\$ 246.3</u>	<u>\$ (0.8)</u>
Less: Estimated Delinquencies	<u>19.7</u>	<u>31.9</u>	<u>34.5</u>	<u>(2.6)</u>
Net Property Tax Collections	<u>\$ 157.0</u>	<u>\$ 213.6</u>	<u>\$ 211.8</u>	<u>\$ 1.8</u>
<u>Tax Rates (Per Thousand):</u>				
General Operations	\$ 20.000	\$ 19.962	\$ 19.962	\$ 0.000
Garbage Tax	3.000	2.994	2.994	0.000
Debt Service	6.195	8.096	7.922	0.174
Building Authority Lease Payment	1.184	-	-	-
Total Tax Rate	<u>\$ 30.379</u>	<u>\$ 31.052</u>	<u>\$ 30.878</u>	<u>\$ 0.174</u>

The 2003-2004 Mayor's Proposed Budget includes \$213.6 million for net property tax revenue, which is an increase of \$1.8 million (0.8%) from the 2002-2003 Budget. This increase is primarily due to the application of an 87% collection rate for property tax in the 2003-2004 Mayor's Proposed Budget versus the 86% collection rate used in the 2002-2003 Budget.

The Budget Department increased the collection rate to 87% for 2003-2004, based on the City's recent collection experience of 87.17% for 2001-2002 and the 84.32% year-to-date collection rate as of March 31, 2003. Further, the Budget Department factored in their decision the expected impact of the use of a collection agency to collect delinquent property taxes. The City has proposed using a professional collection agency, for a period of three years, to assist in

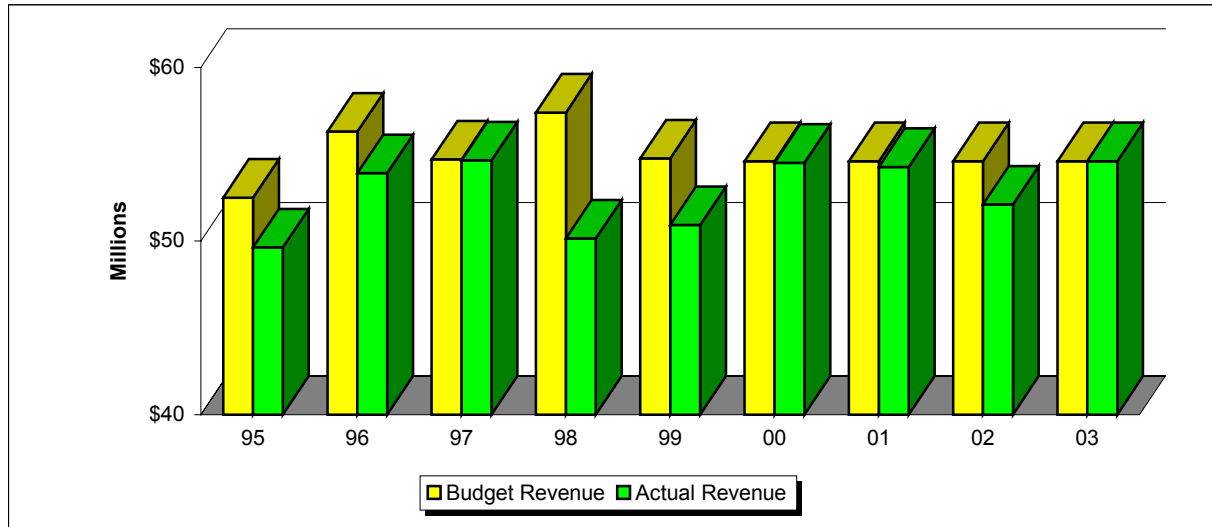
collecting various delinquent taxes including property taxes. The Budget Department estimates that the agency will collect approximately \$15 million in delinquent property taxes during the first year of the contract.

The preceding schedule shows that taxable valuations decreased by \$68.6 million (0.86%) due to a decline in personal property valuations, while the tax rate (per thousand of taxable valuation) increased by \$0.174 (0.56%) due to increased debt service in 2003-2004.

In view of the collection rates that the City has experienced recently, we agree with the net property tax collections estimated for 2003-2004 and the Property Tax Revenue projected for 2002-2003, in the 2003-2004 Mayor's Proposed Budget.

UTILITY USERS EXCISE TAX REVENUE

The chart below compares budgeted Utility Users Excise Tax Revenue to the actual revenue for fiscal years 1994-1995 to 2001-2002, and the budgeted Utility Users Excise Tax Revenue to the revenue projected for fiscal year 2002-2003.



The following schedule compares budgeted Utility Users Tax Revenue to actual revenue beginning with the 1994-1995 fiscal year:

In Thousands				
Year	Budgeted Revenue	Actual Revenue	Actual Over/ (Under)	Percent Over/ (Under) Budget
1994-1995	\$ 52,500	\$ 49,633	\$ (2,867)	(5.5)%
1995-1996	56,300	53,907	(2,393)	(4.3)
1996-1997	54,700	54,641	(59)	(0.1)
1997-1998	57,400	50,145	(7,255)	(12.6)
1998-1999	54,700	50,924	(3,776)	(6.9)
1999-2000	54,600	54,505	(95)	(0.2)
2000-2001	54,600	54,270	(330)	(0.6)
2001-2002	54,600	52,105	(2,495)	(4.6)
2002-2003	54,600	54,600 (A)	-	-
2003-2004	55,000	N/A	N/A	N/A

(A) For 2002-2003, projected revenues are shown in chart 6, City of Detroit-General Fund Percent Change in Major Revenue Sources, of the Mayor's 2003-2004 Budget Message.

N/A For 2003-2004, the actual revenue amount, variance, and related percentage are not yet available.

As shown in the preceding schedule, the City's actual collections, for the last three years for which data is available, have been within 5% of the budgeted Utility Users Tax Revenue.

The Utility Users Tax Act (initially approved as State Public Act No. 198 of 1970), as amended, allows cities with a population greater than 750,000 to assess and collect up to a 5% tax on users of intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5%. The tax is billed by the public utility or resale customer and remitted monthly to the City.

Utility Users Tax Revenues are used exclusively for Police Department operations. The Utility Users Tax Act, as amended, provides that these tax monies must be used to retain or hire police officers. The Act also requires that the amount of each fiscal year's Utility Users Tax Revenue collected in excess of \$45.0 million be dedicated and used exclusively to hire or retain additional police officers (having the rank of sergeant or below) over the level employed on November 1, 1984 (in Detroit, 3,537 officers).

The number of active police officers having the rank of sergeant or below was 3,686 on March 31, 2003, which is 149 above the number required by the Utility Users Tax Act. Should the number of officers fall below 3,537, the Utility Users Tax Act requires that "the rate of tax imposed for the following fiscal year shall be lowered in decrements of $\frac{1}{4}$ of 1% for each full 5% collected in excess of \$45 million."

In the mid 1980's, the natural gas industry was deregulated and some local companies purchased gas out-of-state in an attempt to avoid the Utility Users Tax. The courts have ruled that the cost of all out-of-state natural gas purchases was subject to the Utility Users Tax. In December 1993, the City began billing for unpaid taxes on out-of-state gas purchases that occurred from 1986 to 1993. Since December 1993, the City has collected \$25.1 million in Utility Users Tax Revenue related to the successful litigation of out-of-state gas purchases. In 2001, the City prevailed on all appeals concerning this issue. According to the Finance Department, the estimated amount of the receivable for unpaid billings is \$2.0 million, as of March 28, 2003, which is a \$1.5 million reduction from the January 31, 2002 level.

Utility Users Excise Tax Revenue is budgeted at \$55.0 million in the 2003-2004 Mayor's Proposed Budget, which is \$ 0.4 million higher than the 2001-2002 and 2002-2003 budgeted revenues. In our opinion, this revenue estimate is reasonable since actual revenues were \$54.3 million in 2000-2001, \$52.1 million in 2001-2002, and is projected at \$54.6 million for 2002-2003.

CASINOS

Overview

The 2003-2004 Mayor's Proposed Budget includes a total of \$170.7 million for revenues from Casino Wagering Taxes (\$110.0 million), Municipal Service Fees (\$13.9 million), and Casino Enhancement Revenue (\$46.8 million).

Background

The MGM Grand Detroit Casino and the MotorCity Casino began operations in 1999, and the Greektown Casino began operations in November 2000. Pursuant to State of Michigan Public Act 69 of 1997, the City receives wagering taxes and Municipal Service Fees from the casinos. The wagering tax revenue represents 9.9% of net win. (Gross casino receipts less winnings paid out to wagers equals net win.) In 2001-2002, the Casino Wagering Tax was the City's fourth largest source of revenue.

Casino Wagering Tax

The 2003-2004 Mayor's Proposed Budget includes \$110.0 million in Casino Wagering Taxes, an increase of \$5.0 million (4.8%) from the 2002-2003 budget amount of \$105.0 million. The City's actual wagering tax revenue for 2001-2002 was \$109.5 million, a \$13.7 million increase over the budget amount. In addition, the average annual revenue from wagering taxes for the twelve-month period from April 1, 2002 to March 31, 2003 was \$110.0 million (\$0.302 million average daily revenue * 365 days). For 2002-2003, actual wagering tax revenue is projected at \$109.5 million, or \$4.5 million (4.3%) more than the \$105.0 million budget amount. Based on our reviews of actual and projected casino revenue data, the budget estimate for Casino Wagering Taxes appears reasonable.

Municipal Service Fees

The 2003-2004 Mayor's Proposed Budget includes \$13.9 million in Municipal Service Fees, an increase of \$0.9 million (6.9%) from the 2002-2003 budget amount. The municipal service fee is collected from casino operators to offset expenditures incurred by the City as a result of the casinos' requirements for public safety services. The amount of the municipal service fee is the greater of 1.25% of net win or \$4 million per licensee. This fee is paid to the City on the anniversary date of each casino's opening. The 2003-2004 Mayor's Proposed Budget includes \$15.4 million for 125 police officers and 48 fire and emergency medical service employees for the three casinos. There are 12 fewer budgeted positions for the Gaming Unit (Police) in the 2003-2004 Mayor's Proposed Budget. The number of budgeted positions for fire and emergency medical services is unchanged from the previous budget. The municipal service fee will fund \$13.9 million and the General Fund will fund \$1.5 million of the expenditures for these services. Based on our review of staffing levels and actual expenditures, the budget estimate for Municipal Service Fees appears reasonable.

Revised Development Agreements

In August 2002, the City Council approved revised development agreements with the three casino developers. The long-term agreements will allow the casino operators to proceed with the construction of new casinos. However, the injunction pending appeal filed by the Lac Vieux Desert Band of Lake Superior Chippewa Indians regarding the constitutionality of the City licensing competitive selection process, in Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Board, et al., temporarily enjoins the City from issuing building permits for the permanent casino facilities and casino developers from starting construction of the permanent casino facilities.

Casinos Enhancement Revenue

The 2003-2004 Mayor's Proposed Budget includes \$46.8 million for casino enhancement, a provision in the revised development agreements that resulted in an increase of \$46.8 million from the 2002-2003 budget amount. In accordance with the revised development agreements (Section 3.16 Budgeting Assistance), each casino developer will pay the City \$34.0 million. The first installment of \$17.0 million was payable 60 days after the City Council approved the revised agreements. The casinos' \$17.0 million balance is payable over twelve equal installments, beginning in June 2003¹. Based on the stipulations in the revised development agreements, the budget estimate for casino enhancement fees appears reasonable.

The casino enhancement payments are made in lieu of the developers' obligations to establish and provide financing for various funds such as the Casino Redevelopment Fund, Neighborhood Development Fund, and the Joint Employee Procurement Advisory Board. These obligations were terminated under the revised development agreements.

¹ The budget estimate was calculated as follows: payments from 3 casinos of \$17 million each = \$51.0 million less \$4.25 million total payment from 3 casinos received in June 2003 = \$46.8 million.

BOND SALES

The 2003-2004 Mayor's Proposed Budget includes revenue from bond sales totaling \$76,770,000 for capital projects (\$46,770,000) and new vehicle purchases (\$30,000,000). The Mayor's Budget Message indicates that additional bonds will be issued in connection with the restructuring of debt (\$83,000,000). However, the revenue from bond sales to restructure debt is not included in the 2003-2004 Mayor's Proposed Budget.

Bonds Issued for Capital Projects

The 2003-2004 Mayor's Proposed Budget includes revenues of \$45,000,000 from the sale of voter approved general obligation bonds, an increase of \$5,000,000 from the 2002-2003 budget. An additional \$1,770,000 bond proceeds are expected from the sale of bonds from the remaining authorization of a prior bond issue. The estimated cost of bond underwriting expense is \$935,400, or 2%, of bond sales.

The bond proceeds will provide financing for the following capital improvement projects in fiscal year 2003-2004.

<u>Agency</u>	<u>Project Description</u>	<u>Amount</u>
Airport	Mini-take Phase III - Land Acquisition	\$ 500,000
Arts	Detroit Institute of Arts Improvements	5,000,000
Charles H. Wright Museum of African American History	Core Exhibit	4,000,000
Detroit Transportation Corporation	People Mover Improvements	9,100,000
Health	Building and Sites Improvements (Herman Kiefer)	1,000,000
Planning and Development	Brush Park Project Redevelopment Area	7,000,000
Public Lighting	Capital Abatement, Street Lighting Modernization, Service Extensions – Herman Gardens	7,800,000
Recreation	Park Development – Force Work, Belle Isle Park Improvements, Recreation Facility Improvements, Parks and Landscape	8,400,000
Unspecified	Appropriated/Unsold Projects	1,770,000
Zoo	Chimp Moat – Great Ape Moat, Gunite Repair, Penguinarium Renovation/Mechanical System, Roof Replacement, Paving/Roads/Utilities	2,200,000
Total Revenue from General Obligation Bond Sales		<u><u>\$46,770,000</u></u>

Bond Ratings

At April 1, 2003, the ratings on the City's general obligation bonds (unlimited tax) were: **Baa1** by Moody's Investors Service; **A-** by Standard & Poor's; and **A** by Fitch Investors Service. Each of these bond ratings is considered investment grade, i.e., a rating in the top four categories used by commercial credit rating companies. For general obligation bonds (unlimited tax) guaranteed by municipal bond insurance or letter of credit, the City's ratings were: **Aaa** by Moody's Investors Service; **A-** by Standard & Poor's; and **AAA** by Fitch Investors Service. These bond ratings were unchanged from a year ago.

Revenue Bonds

The 2003-2004 Mayor's Proposed Budget does not include any proceeds from the sale of revenue bonds for the Water and Sewerage Department. The 2002-2003 budget included the sale of Sewerage Revenue bonds totaling \$410,000,000 for capital improvements and Water Revenue Bonds totaling \$360,000,000 for various water improvement projects, resulting in a variance of \$770,000,000 from the prior budget. The 2002-2003 budgeted revenue and sewerage bond sales were a part of the Department's effort to comply with federal mandates.

Capital Reinvestment

The 2003-2004 Mayor's Proposed Budget includes \$2,135,000 revenue from investment earnings on proceeds from the sale of general obligation bonds, an increase of \$409,000 from the 2002-2003 budget. These investment earnings are slated for reinvestment in capital projects (e.g., the financing for the Detroit Institute of Arts capital improvement project includes bond proceeds and investment earnings).

Remaining Authorization

As of April 1, 2003, the amount of voter authorized and unissued general obligation bonds totaled \$168,410,000, including the \$1,770,000 bonds expected to be sold in 2003-2004. The bonds under remaining authorization will be sold to meet funding requirements of authorized projects. During the special election on April 29, 2003, voters will approve (disapprove) the authorization and issuance of general obligation limited tax bonds in amounts not to exceed \$6,000,000; \$55,000,000; \$25,000,000; and \$45,000,000, in connection with Proposal H, Proposal M, Proposal N, and Proposal S, respectively.

Total Legal Debt Limit (General Purpose and Hospital)

The Home Rule City Act (Public Act 279 of 1909) limits the maximum amount of net indebtedness that may be incurred for public purposes. The limit is set at 10% of the City's state equalized valuation (adjusted for certain assessed value equivalents) or 15% if that portion which exceeds 10% is used solely for construction or renovation of hospital facilities. However, allowances under various Public Acts provide for the exclusion of certain general obligation debt (e.g., Greater Detroit Resource Recovery bonds) from the limit. As of April 1, 2003, the general purpose limit for the City was \$1,325,039,472, which includes \$604,387,614 of outstanding debt. Therefore, the City may issue additional bonds in the amount of \$720,651,858.

The City may issue additional debt in the amount of \$662,519,736, if such debt is related to the construction or renovation of hospital facilities. Therefore, the total legal debt that the City may issue is \$1,325,039,472 for general purpose and \$662,519,736 for hospital construction and/or renovation.

Bonds Issued for Internal Service Fund

The 2003-2004 Mayor's Proposed Budget includes \$30,000,000 for the sale of limited general obligation bonds to finance new vehicle purchases. In addition, officials are considering a plan to refinance principal and interest payments due in 2003-2004 on the Long-Term Capital Improvement Bonds (2001), which were issued to purchase vehicles under the fleet management program.

Bonds Issued for Debt Restructuring

The 2003-2004 Mayor's Budget Message included a reference to a financing, on a one-time basis, of risk management payments and debt restructuring. We obtained some details of these transactions from employees in the Budget Department and Debt Management Division (Finance Department). The net \$83,000,000 debt restructuring involves the following bond transactions:

1. \$73,000,000 (estimated) revenue from sale of limited tax bonds for risk management payments

The bond proceeds are earmarked for the following expenditures: 1) interest and principal payments due in 2003-2004 for the self-insurance bonds, and 2) insurance premiums due to the Risk Management Fund for the Detroit Department of Transportation (DDOT) and general fund agencies. Our review of the Risk Management Fund includes an analysis of the financing for the risk management payments and debt restructuring.

2. \$12,010,000 (estimated) revenue from limited tax bonds

The bond proceeds will be used for interest and principal payments due in 2003-2004 for the Long-Term Capital Improvement Bonds (2001), which were issued for new vehicle purchases of the Internal Service Fund.

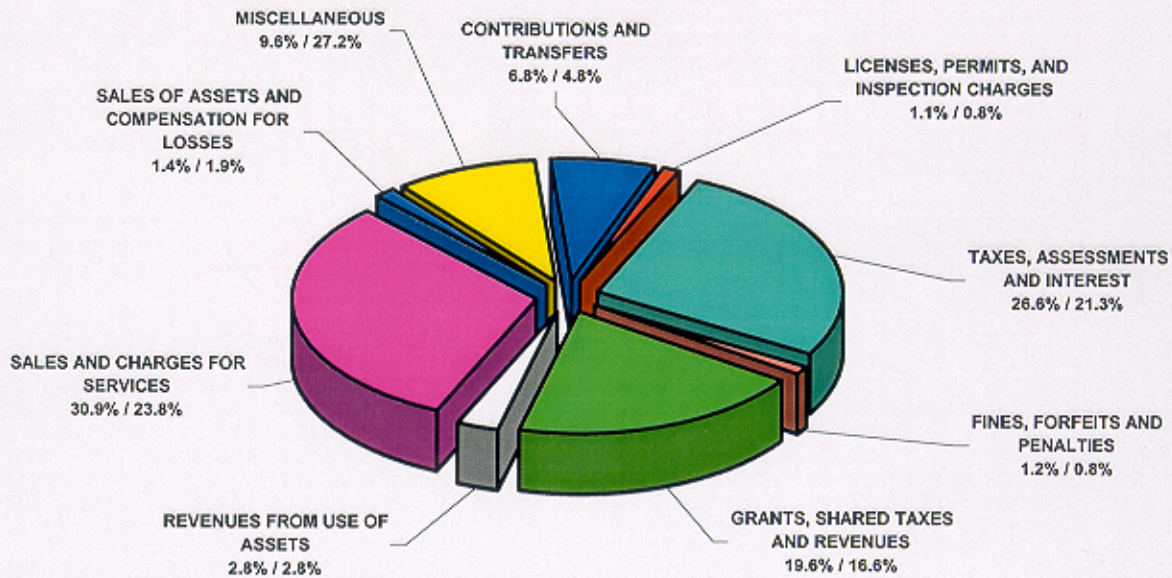
3. (\$1,700,000) (estimated) expenditure for bond issuance costs

The bond proceeds will be used for bond insurance, legal expenses, and other costs associated with the issuance of the bonds.

The financing of the risk management payments and the debt restructuring is designed to minimize layoffs, and provide for future expenditure reduction opportunities identified by the new Program Management Office. The inherent exposure related to the issuance of limited tax general obligation bonds is the obligation to pay debt service from the non-restricted assets of the General Fund, the effect of which is to reduce the amount that otherwise would be available to support operations.

The City's debt policy specifies that debt should only be issued for capital purposes (see page B44 of the 2003-2004 Executive Budget Summary).

MAJOR REVENUES BY SOURCE
2003-2004 MAYOR'S BUDGET / 2002-2003 BUDGET



REVENUE SOURCE	2003-2004 MAYOR'S BUDGET	2002-2003 BUDGET	INCREASE (DECREASE)	PERCENT CHANGE
LICENSES, PERMITS, AND INSPECTION CHARGES	\$ 33,769,004	\$ 31,000,974	\$ 2,768,030	8.93 %
TAXES, ASSESSMENTS AND INTEREST	805,135,750	805,090,875	44,875	0.01
FINES, FORFEITS AND PENALTIES	35,610,743	28,903,259	6,707,484	23.21
GRANTS, SHARED TAXES, AND REVENUES	589,828,729	626,756,235	(36,927,506)	(5.89)
REVENUES FROM USE OF ASSETS	84,872,711	107,056,115	(22,183,404)	(20.72)
SALES AND CHARGES FOR SERVICES	935,895,736	898,800,578	37,095,158	4.13
SALES OF ASSETS AND COMPENSATION FOR LOSSES	41,735,882	72,006,200	(30,270,318)	(42.04)
MISCELLANEOUS	290,864,936	1,030,450,064	(739,585,128) (B)	(71.77)
CONTRIBUTIONS AND TRANSFERS	206,239,814	182,532,755	23,707,059	12.99
TOTAL	\$ 3,023,953,305 (A)	\$ 3,782,597,055	\$ (758,643,750)	(20.06) %

(A) This amount does not include revenue from the proceeds of the \$83 million restructuring of debt.

(B) This is the result of a \$410 million decrease in Sewerage Revenue Bonds and a \$360 million decrease in Water Revenue Bonds along with miscellaneous increases and decreases.

ESTIMATED REVENUES BY SOURCE
2003-2004 MAYOR'S BUDGET / 2002-2003 BUDGET
(in millions of dollars)

	2003-2004 Mayor's Recommendation	2002-2003 Budget	Increase (Decrease)
LOCAL SOURCES			
Gross Property Tax (excludes Library)	\$ 245.5	\$ 246.3	\$ (0.8)
Less: Estimated Delinquencies	(31.9)	(34.5)	2.6
Net Property Tax	\$ 213.6	\$ 211.8	\$ 1.8
Administrative Fees	5.6	4.6	1.0
Delinquent Taxes (includes Interest and Penalty)	47.4	32.4	15.0
Downtown Development Authority	1.4	1.4	-
Earnings on Investments	4.8	6.9	(2.1)
General Obligation Bonds (A)	45.0	40.0	5.0
Internal Reserve Fund (Vehicles)	33.0	35.6	(2.6)
Licenses, Permits, and Inspection Charges	33.8	31.0	2.8
Limited/Pledged Debt Expense	13.6	13.6	-
Municipal Income Tax	300.4	323.5	(23.1)
Prior Years Municipal Income Tax	10.7	-	10.7
Municipal Service Fee (Casinos)	13.9	13.0	0.9
Wagering Tax (Casinos)	110.0	105.0	5.0
Ordinance Fines	15.8	11.1	4.7
Casino Enhancement Revenue	46.8	-	46.8
Parking Fines	10.2	9.7	0.5
Risk Management Fund (Workers' Compensation Pass Through)	19.4	19.9	(0.5)
Sale of Electricity and Steam	47.8	47.1	0.7
Sales and Charges for Services	130.4	163.0	(32.6)
Supplemental Fee (GDRRA)	33.5	34.7	(1.2)
Utility Users Excise Tax	55.0	54.6	0.4
Other Revenues	68.1	66.1	2.0
Enterprise Agencies			
Library Revenues (Excluding Federal and State Sources)	32.3	30.5	1.8
Revenue Bonds	-	770.0	(770.0)
Revenue from Operations	837.3	809.4	27.9
Subsidy from General Fund	74.0	88.2	(14.2)
SUBTOTAL - MAJOR LOCAL REVENUES	\$ 2,203.8	\$ 2,923.1	\$ (719.3)
FEDERAL SOURCES			
Community Development Block Grant	\$ 50.3	\$ 59.5	\$ (9.2)
Community Service Block Grant	8.1	6.7	1.4
Crime Bill (Police)	5.1	5.9	(0.8)
Department of Energy Weatherization Grant	3.5	2.8	0.7
Federal Housing Subsidy	53.4	48.0	5.4
Head Start Grant	51.1	49.0	2.1
Health Grants	35.9	35.2	0.7
Home Investment Grant	11.3	18.5	(7.2)
Housing Comprehensive Grant	28.0	23.0	5.0
Work Force Investment Act Grant	21.3	16.0	5.3
Medicare Reimbursement-EMS	6.2	5.1	1.1
Michigan Occupational Skills Training Grant	30.6	41.4	(10.8)
Other Revenues	6.1	5.3	0.8
SUBTOTAL - MAJOR FEDERAL REVENUES	\$ 310.9	\$ 316.4	\$ (5.5)
STATE OF MICHIGAN SOURCES			
Equity Package (Cultural)	\$ 4.3	\$ 4.3	\$ -
Equity Package (Police)	0.9	1.1	(0.2)
Gas and Weight Taxes	53.2	57.2	(4.0)
Library Community Programs	0.8	0.8	-
Mass Transportation Funds	54.5	58.0	(3.5)
Medicaid Reimbursements	1.8	4.3	(2.5)
Public Health Programs	26.8	27.9	(1.1)
State Revenue Sharing (General Fund)	310.7	332.0	(21.3)
State Revenue Sharing (Library)	1.8	1.9	(0.1)
Other Revenues	54.5	55.6	(1.1)
SUBTOTAL - MAJOR STATE REVENUES	\$ 509.3	\$ 543.1	\$ (33.8)
TOTAL REVENUES - ALL SOURCES	\$ 3,024.0	\$ 3,782.6	\$ (758.6)

(A) The amount does not include the \$83 million restructuring of debt. In addition, the amount does not include \$1.77 million in General Obligation Bonds for Appropriated/Unsold projects.

**ESTIMATED REVENUES
MAJOR INCREASES AND DECREASES
(\$5 MILLION OR MORE)
2003-2004 MAYOR'S BUDGET / 2002-2003 BUDGET**

REVENUE CATEGORY	In Millions		
	2003-2004 Mayor's Budget	2002-2003 Budget	Increase (Decrease)
<u>LOCAL SOURCES:</u>			
Delinquent Taxes (includes Interest & Penalties)	\$ 47.4	\$ 32.4	\$ 15.0
General Obligation Bond Program (A)	45.0	40.0	5.0
Municipal Income Tax	300.4	323.5	(23.1)
Prior Years Municipal Income Tax	10.7	-	10.7
Sales & Charges for Services	130.4	163.0	(32.6)
Casinos Enhancement Revenue	46.8	-	46.8
Wagering Tax (Casinos)	110.0	105.0	5.0
 Enterprise Agencies:			
Revenue from Operations	\$ 837.3	\$ 809.4	\$ 27.9
Revenue Bonds	-	770.0	(770.0)
Subsidy from General Fund	74.0	88.2	(14.2)
 <u>FEDERAL SOURCES:</u>			
Community Development Block Grant	\$ 50.3	\$ 59.5	\$ (9.2)
Federal Housing Subsidy	53.4	48.0	5.4
Home Investment Grant	11.3	18.5	(7.2)
Housing Comprehensive Grant	28.0	23.0	5.0
Work Force Investment Act Grant	21.3	16.0	5.3
Michigan Occupational Skills Training Grant	30.6	41.4	(10.8)
 <u>STATE OF MICHIGAN SOURCES</u>			
State Revenue Sharing - General Fund	\$ 310.7	\$ 332.0	\$ (21.3)

(A) The amount does not include the \$83 million restructuring of debt. In addition, the amount does not include \$1.77 million in General Obligation Bonds for Appropriated/Unsold projects.

ESTIMATED REVENUES BY AGENCY
2003-2004 MAYOR'S BUDGET / 2002-2003 BUDGET

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AGENCY	2003-2004 Mayor's Budget		2002-2003 Budget	
GENERAL CITY AGENCIES:				
		Percent		Percent
EXECUTIVE AGENCIES:	Amount	of Total	Amount	of Total
11 Arts	\$ -	0.00%	\$ -	0.00%
12 Budget	-	0.00	-	0.00
14 Department of Cultural Affairs and Tourism (A)	10,889,175	0.36	-	0.00
14 Civic Center (A)	-	0.00	10,378,910	0.27
15 Communications and Creative Services	-	0.00	-	0.00
16 Consumer Affairs (B)	-	0.00	1,702,640	0.05
17 Cultural Affairs (A)	-	0.00	506,062	0.01
19 Department of Public Works	72,224,927	2.39	75,504,702	2.00
21 Employment and Training	82,977,071	2.74	87,690,854	2.32
22 Environmental Affairs	2,885,517	0.10	230,000	0.01
23 Finance	7,840,913	0.26	7,573,728	0.20
24 Fire	9,858,223	0.33	10,019,550	0.26
25 Health	72,341,035	2.39	72,944,415	1.93
26 Historical	842,705	0.03	2,799,550	0.07
28 Human Resources	12,488,589	0.41	11,796,682	0.31
29 Human Rights	61,200	0.00	13,500	0.00
30 Human Services	71,935,078	2.38	69,383,243	1.83
31 Information Technology Services	3,069,747	0.10	3,094,857	0.08
32 Law	3,588,689	0.12	3,811,332	0.10
33 Mayor's Office	-	0.00	50,000	0.00
36 Planning and Development	65,071,016	2.15	112,319,456	2.97
37 Police	90,297,456	2.99	88,795,072	2.35
38 Public Lighting	61,719,200	2.04	60,611,700	1.60
39 Recreation	11,077,182	0.37	13,826,378	0.37
40 Senior Citizens	1,238,273	0.04	1,028,273	0.03
44 Zoological Institute	11,494,047	0.38	11,417,327	0.30
45 Department of Administrative Hearings (C)	92,143	0.00	-	0.00
TOTAL EXECUTIVE AGENCIES	\$ 591,992,186	19.58%	\$ 645,498,231	17.06%
LEGISLATIVE AGENCIES:				
50 Auditor General	\$ 200,000	0.01%	\$ 200,000	0.01%
51 Board of Zoning Appeals	120,000	0.00	120,000	0.00
52 City Council	651,139	0.02	2,437,913	0.06
53 Ombudsperson	-	0.00	-	0.00
70 City Clerk	-	0.00	-	0.00
71 Department of Elections	1,131,660	0.04	197,338	0.01
TOTAL LEGISLATIVE AGENCIES	\$ 2,102,799	0.07%	\$ 2,955,251	0.08%

ESTIMATED REVENUES BY AGENCY
2003-2004 MAYOR'S BUDGET / 2002-2003 BUDGET

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AGENCY	2003-2004 Mayor's Budget		2002-2003 Budget	
	Amount	Percent of Total	Amount	Percent of Total
JUDICIAL AGENCY:				
60 36th District Court	\$ 18,563,516	0.61%	\$ 17,803,899	0.47%
OTHER AGENCIES:				
35 Non-Departmental	1,182,875,409	39.12	1,148,521,812	30.36
TOTAL GENERAL CITY AGENCIES	\$ 1,795,533,910	59.38%	\$ 1,814,779,193	47.97%
18 Debt Service	\$ 68,376,138	2.26%	\$ 64,153,936	1.70%
ENTERPRISE AGENCIES:				
(TAX SUPPORTED)				
10 Airport	\$ 4,379,837	0.14%	\$ 4,183,933	0.11%
13 Buildings and Safety Engineering	38,655,131	1.28	36,792,242	0.97
20 Department of Transportation	169,512,014	5.61	183,665,129	4.86
72 Library	38,140,465	1.26	38,164,419	1.01
TOTAL TAX SUPPORTED ENTERPRISE AGENCIES	\$ 250,687,447	8.29%	\$ 262,805,723	6.95%
TOTAL TAX SUPPORTED AGENCIES	\$ 2,114,597,495	69.93%	\$ 2,141,738,852	56.62%
ENTERPRISE AGENCIES:				
(NONTAX SUPPORTED)				
27 Housing	\$ 84,970,617	2.81%	\$ 78,000,000	2.06%
34 Municipal Parking	50,571,194	1.67	48,228,143	1.28
41 D.W.S.D. - Water	289,595,200	9.58	636,314,098	16.82
42 D.W.S.D. - Sewerage	484,218,799	16.01	878,315,962	23.22
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	\$ 909,355,810	30.07%	\$ 1,640,858,203	43.38%
GRAND TOTAL - ALL AGENCIES	<u>\$ 3,023,953,305 (D) 100.00%</u>		<u>\$ 3,782,597,055</u>	<u>100.00%</u>

- (A) The Civic Center and Cultural Affairs Departments are merged in the new Department of Cultural Affairs and Tourism in the 2003-2004 Mayor's Proposed Budget. The agency number was not changed
- (B) The Consumer Affairs Department was eliminated in the 2003-2004 Mayor's Proposed Budget, and its functions were transferred to other agencies.
- (C) The Department of Administrative Hearings is a new agency for 2003-2004.
- (D) The amount does not include the one-time financing with General Obligation Bonds for risk management payments and debt restructuring. In addition, this amount does not include \$1.77 million in General Obligation Bonds for Appropriated/Unsold projects.